National Credit Union Administration
Chairman Debbie Matz

Remarks to

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Thank you very much. It's always a great pleasure to come back to Texas – a state where you grow everything big, from cattle to cotton fields to your credit union movement.

Thinking of big, Texas-sized numbers: If you get the feeling that the NCUA is spending a lot of time focusing on Texas nowadays, you are right. That's because the Lone Star State now has the largest number of federally insured credit unions of any state in the country. With 560 credit unions, Texas recently overtook the nation's longtime front-runner, Pennsylvania.

That spot as Number One in the country befits the state whose lawmakers – Senator Morris Sheppard and Congressman Wright Patman – authored the Federal Credit Union Act of 1934, establishing the federally regulated credit union system.

Before I discuss the state of today's credit union system, I'd like to begin by recognizing a great leader of the credit union industry: your League president, Dick Ensweiler. Dick is this year's recipient of the most prestigious honor that the credit union movement can bestow: the Herb Wegner Memorial Award for Individual Achievement, awarded by the National Credit Union Foundation.

Dick is a tireless advocate for the credit union industry, and he is renowned nationwide for his dedication to the "people helping people" philosophy. Since starting his career as a teller at a small credit union, Dick has reached out constantly to new constituencies – especially those whose financial needs have been under-served by the banking system.

Dick, thanks to your idealism, countless families now have a brighter future. The Wegner Award is a testimony to your dedication, your drive, and your faith in the credit union movement – and we all thank you for your great achievements.

(Lead the applause.)

You know, Dick is much too modest to take credit for his many accomplishments. And, the other day, as I was reflecting on Dick's career and thoughtful style, I recalled the very different personality of another Texan – who was a little more, shall we say, expansive. After all, whenever Washingtonians like me get ready to visit Texas, we inevitably remember the legend and lore of one of the greatest Texans who ever came to the nation's capital: Lyndon Johnson.

LBJ brought his outsized ego to Washington, and it was reflected in every gesture of his Presidency. For example, at the home of "Air Force One" – Andrews Air Force Base – they always remember the time that LBJ – coming back from a long trip – had to transfer from the presidential jet to a helicopter to get back to the White House. There on the tarmac – with dozens of helicopters lined up on the flight line – a young Major summoned up his courage to speak to the Commander-in-Chief. Pointing to a chopper, he said: "Mister President, that one is your helicopter." To which Johnson replied: "Son, they're ***all*** *my* helicopters."

Like LBJ, Texans believe in plain talk – presenting the facts straight from the shoulder. And that's what I'm aiming to do here today: to provide some clear insights about how the credit union industry is performing – in Texas and nationwide – amid these very tough economic times.

Here in Texas, most of your credit unions have shown remarkable strength.

With almost $64 billion in total assets, the Texas credit union industry is generally sound. Among the 560 credit unions, 453 – with more than 86 percent of total assets – have a CAMEL rating of 1 or 2. The generally low rate of delinquencies and charge-offs in Texas is an indication of sound lending standards and good management.

Like every state, however, Texas has a worrisome number of credit unions that have weakened during the economic downturn. In Texas, 107 credit unions – almost one-fifth of the state's total – now have a CAMEL rating of 3, 4 or 5. It's clear that some are in the danger zone, or approaching it.

Our latest analysis shows that the 14 Texas credit unions rated CAMEL 4 – along with one that is rated CAMEL 5 – hold almost 5-and-a-half percent of Texas credit union assets. That's even higher than the national average – and that's a troubling sign.

We are monitoring the performance of Texas credit unions carefully – especially in light of the downturn in commercial real estate. We want to make sure that today's CAMEL 3s – 92 of them, with more than 8 percent of your state's credit union assets – do not become tomorrow's problem institutions.

Of course, the severe economic recession has had a great impact on Texas credit unions. The Texas economy – like the nation's – has been under greater stress than at any time since the 1930s.

The good news is that the Texas economy is generally doing better than the national average. Single-family home prices are stable in Texas, whereas they are still falling in many parts of the country. And bankruptcy and foreclosure rates in Texas are significantly better than the nation's.

Though the state's unemployment rate, at 8.3 percent, is well below the national average, many Texans are still hurting. We are all committed to helping those struggling families make it through these tough times to the economic recovery. The new federal job-creation package, enacted into law last month with truly bipartisan support, will spur additional investments that will help lift employment and raise incomes for Main Street America.

And, credit unions are part of the solution.

If there is a silver lining in the midst of the country's economic crisis, it is this: In a day-and-age when every other part of America's financial-services sector has seen its reputation tarnished, credit unions are still shining.

Credit unions have lived up to their Main Street values, throughout this economic downturn. Unlike Wall Street, you don't have to look at the stock-market tables to know what your value is.

Yet, over the past several years, no part of America's financial sector has been immune from the pressures of the financial crisis – and of the prolonged recession that it triggered. The credit union industry – even in a state like Texas, where you are performing relatively well – now confronts an array of challenges that will test your resilience.

I believe that – by working together – we can turn today's challenges into tomorrow's opportunities.

As the federal agency that ensures the safety and soundness of the credit union system, NCUA is committed to helping you through the current challenges.

It is certainly in America's best interest to have a strong, sustainable credit union industry – providing capital to hard-working families and good, solid businesses. When people get the credit they need to turn their dreams into reality, they can create what our country needs most, right now: good jobs for Main Street Americans.

I have been in my new role at NCUA for almost eight months now. When President Obama asked me to come back to the agency for another tour of duty, I did not hesitate for a second.

But what a difference there is, between the economic conditions when I first served on the Board and the landscape we face today. The credit-market turbulence that started in 2007 seemed to come out of the blue – causing a financial crash in 2008, an economic slump of 2009, and only a sluggish recovery in 2010.

We seem to have gotten past the worst of the downturn by now, and many of the key economic indicators are beginning to turn upwards. Nonetheless, it is going to take awhile to clean up all the wreckage caused by this crisis.

The data remain worrisome. Nationwide, the number of credit unions downgraded to CAMEL 4 and 5 almost doubled during the economic downturn – and those credit unions hold more than 5 percent of all insured shares. Even larger is the growing group of credit unions rated CAMEL 3, which now account for nearly 14 percent of all insured shares. Many of the 7,600 federally insured credit unions – while still well-capitalized – will be draining capital this year, due to negative earnings. At the same time, delinquencies and loan losses continue to increase. Undoubtedly, these will lead to an increase in failures.

So NCUA is stepping up to the plate. Our examiners are carefully monitoring the call reports of all federally insured credit unions, looking for red flags.

We are watching for a number of specific warning signs that have caused failures in recent years. These include increases in delinquencies in member business lending, indirect lending, and loan participations. We are particularly concerned about credit unions that are not doing their own due diligence. Let me be clear: If you make member business loans, you must do your own underwriting, even if you use a vendor or CUSO. If you make indirect loans, you must not delegate loan approval authority. And if you participate in loans, you still must do your own due diligence, even if the originator is another credit union.

We have asked our examiners to review call reports of every credit union. If they see that a credit union has suffered a significant increase in delinquencies in any of these areas, they will visit the credit union – even if an exam is not on the regular schedule, and even if it's a state-chartered credit union.

We are also looking very closely at any institutions that are holding too many fixed-rate, long-term mortgages on their books. We have been warning, for months now, that higher interest rates are a question – not of "if" – but of "when." And you have seen, just in the past few weeks, that the Federal Reserve is indeed beginning to raise interest rates. So — for those of you who are credit union executives — we urge you to take action now to make sure your portfolio is strong enough to withstand the interest-rate risks that will soon hit your balance sheet.

I know that some of you think NCUA is over-reacting. But the reality is: We're taking precautions to prevent dangerous situations from arising before it is too late. We are taking the disciplined steps required to protect the credit union system as a whole.

With our careful oversight, our examiners do not intend to play a regulatory game of "gotcha." And they have been warned about that.

Yet we must uphold rigorous standards – at credit unions large and small – because we aim to protect the 90 million members who depend on the safety and soundness of the credit union system.

If the recent financial meltdown taught us anything, it is that – particularly in financial services – weakness, whether real or perceived, can create ripple effects very quickly. That is why we do not ever want you to be in a place where any cracks start showing.

We look forward to seeing the positive long-term benefits that will result from our diligent efforts to strengthen the system. During the recent years of stress, we have spent a great deal of time addressing credit unions' immediate problems. But, as we look ahead toward an economic recovery, we can again appreciate the industry's longer-term potential.

Because we have insisted on taking precautions early – before dangerous situations arise – all of us now have stronger reason for long-term optimism. The steps we have taken, like the assessments to preserve the insurance fund and to stabilize the corporate credit union system – painful as they have been in the short term – will put the overall system in a stronger position for the long term.

(pause)

Even as we look toward a prosperous future, let me underscore one of the central challenges that we now confront, as we try to resolve the problems of the past.

As I know you are all very aware, NCUA has taken decisive action to deal with the corporate credit union crisis. Yes: It was indeed a crisis. If we had not confronted the situation head-on – if we had allowed the corporate crisis to become a consumer crisis – the nation's credit union structure would have faced a grave systemic risk.

Let me take just a couple of minutes to explain – in straightforward terms – what occurred, and the steps we're now taking to make sure that such a crisis can never happen again.

I would like to start by assuring you that I fully recognize the legitimate anger that many of you feel about the corporate crisis. That anger has come through loud and clear in the comments we have received to the proposed new corporate rule, and in the town hall meetings we have held – including one right here in Dallas in January.
In personal conversations with many of you, I have heard directly about the pain you have felt, amid the damage to the credit unions you have worked so hard to build. I know that many of you blame NCUA: After all, two examiners were on-site at US Central and WesCorp. I understand that. But there is plenty of blame to go around. NCUA definitely shares some of that blame. So do the managers and boards of those corporates who exercised such poor judgment.

Much of the blame falls outside the credit union industry. Mortgage brokers made dubious loans that led to waves of foreclosures. Rating agencies handed out Triple-A ratings for mortgage-backed securities that are now merely "toxic assets."

When the mortgage bubble burst, the fallout caused an extraordinary and unforeseen decline in the global economy.

But it is not productive to look back to assess blame. It is only productive to look back for the purpose of learning from our mistakes, so we do not repeat them. That is what NCUA has been doing for the past year, as we developed the proposed corporate rule and asked for your comments.

I know you are all living with the consequences of the corporate failures. So let us consider how the corporate crisis unfolded, so we can gain a better understanding of exactly what took place . . . and gain some insights into the thinking behind the key elements of our proposed rule.

The global credit crisis of 2007 and 2008 exposed the four giant corporate credit unions to extreme shock, because they held a vast amount of residential-mortgage-backed securities. When the market for those bonds suddenly halted, the corporates' losses pushed them toward insolvency.

If the corporates had abruptly stopped operating, that would have threatened to end the services that they have long provided to natural-person credit unions. That is because three-quarters of natural-person credit unions use the corporates as their primary agents for clearance and settlements – taking care of the complicated "financial plumbing" behind everyday services like checking accounts, debit accounts and ATM transactions.

Worse: About 90 percent of natural-person credit unions had investments in the corporates. If the corporate system had collapsed, the natural-person-credit-union system would have suffered huge and insurmountable losses – shattering confidence in all of America's credit unions. Since they had such large investments in the corporates, credit unions would have lost about $30 billion in net worth – about one-third of the net worth of all natural-person credit unions at the time. That would have led to the collapse of at least 800 – perhaps as many as 1,200 – natural-person credit unions.

In addition, the federal Share Insurance Fund would have had to levy huge assessments on the remaining credit unions, in order to cover the remainder of the losses. It is uncertain whether those remaining credit unions could have withstood the strain. They would have been facing enormous costs in terms of capital, along with a catastrophic loss of public confidence.

We simply could not let that happen. As a result, NCUA had to put two of the largest corporates – US Central and WesCorp – into conservatorship. And we have also had to carefully monitor the operations of the other large corporates that are under severe pressure.

Then, to stabilize the entire credit union system, NCUA placed guarantees on shares at all corporates. This ensures that your credit unions' investments in the corporates are backed by the full faith and credit of the United States government.

Our aim has not been to "bail out" the corporates. We aimed to stop them from bleeding, as their assets were hemorrhaging value. NCUA did what we had to do, to save the system. We preserved public confidence. We stabilized the corporates.

Going forward, we must ensure that never again will the entire credit union system be threatened by one group of credit unions – or even one single credit union.

For the long term, NCUA is focused on providing a framework for safety and soundness that protects the system. We are determined to enact new safeguards to make sure that such a situation can never happen again.

The NCUA Board released the proposed new rule on corporates on November 19. By the time the public comment period closed on March 9, we had received over 800 comment letters, totaling over 2,500 pages. I assure you, we will read every one.

By contrast, the proposed rule runs 234 pages. I'd like to distill that proposed new rule into its four main themes. It involves changes in four critical areas that are flawed in the current rule.

First: On capital standards: The new rule will significantly strengthen capital requirements, aligning corporates with Basel One standards; subjecting corporates to a leverage capital requirement in an effort to reduce risk; and imposing Prompt Corrective Action standards on corporates that match those that apply to all other federally insured financial institutions.

Second: On asset-liability management: It proposes specific ALM requirements to ensure that the gap between the average life of assets and liabilities does not present excessive risk. It also prohibits a corporate from accepting funds from a single source that exceeds 10 percent of the corporate's assets. This will avoid excessive reliance on a single lender or depositor.

Third: On risk concentration: It will limit risk by forbidding corporates from excessive concentration in a single type of asset. Promoting a diverse portfolio of investments will help avoid the kind of risk concentration that was permitted under the flawed corporate rule that was approved in 2002. Back then, I voted against that rule, for this very reason.

Fourth and finally: On governance standards: It will raise eligibility standards for corporates' board members, aiming to elevate the boards' level of experience, expertise and motivation.

Achieving our goals in these four areas will go a long way toward preventing another corporate crisis from ever occurring.

We have benefitted from the broad public input on these ideas – not only from your written insights during the public comment period, but also from your direct feedback in "town hall meetings" and a town hall webinar. Let me assure you: In light of all those comments, we will be making further improvements to the rule.

We are aiming to finalize the rule this summer. We're confident that the new safeguards, when refined and implemented, will protect the system from the threat of another meltdown.

But first, we plan to respond to what your comments told us is the highest priority: the need for NCUA to dispose of the toxic assets that caused the meltdown.

Isolating these so-called "legacy assets" – which are severely impaired securities – is a necessary first step in avoiding further damage, as we weigh various options for the best way to deal with them for the long term.

I understand why some of you do not want to recapitalize corporates as long as toxic assets remain on their books. And I understand why you are frustrated that NCUA has not yet announced a plan to remove these legacy assets. So, today, I am going to share with you our plans to date.

First, let me say, this is very much a work in progress. It is an enormous undertaking.

There is no easy way to un-bundle more than $50 billion worth of long-term assets, repackage them into marketable bonds, and move them from corporates' balance sheets without realizing the losses.

This effort is so huge – and so important – that we are dedicating 20 of our top staff to work on it. Over the past several months, our team has been brainstorming every idea they can imagine to safely resolve the corporate crisis at the lowest possible cost to credit unions. With nearly every possible solution, more questions and more legal and accounting issues are raised.

Yet today we feel we are on the verge of a breakthrough. Our team is close to proposing a plan that would remove the riskiest legacy assets from ongoing corporates, while carrying forward the most valuable pieces of the corporate system. The plan would empower natural-person credit unions to choose which corporates they will support. And it would ensure that those corporates begin with clean balance sheets.

If the plan proceeds as we envision, it could even allow credit unions to recover future earnings from legacy assets that out-perform current loss projections.

Our team is still working to answer a host of questions – questions about underwriting, funding, and much much more.

But they are cautiously optimistic that this careful process will generate the best possible answers. In fact, they hope to bring a comprehensive corporate resolution plan to the NCUA Board by the end of June.

Like you, I want to unveil NCUA's plan to resolve the corporate crisis as quickly as possible. But I do not want to rush this critically important process. We may only have one chance to get this right. So please bear with us until we are sure that we have refined the best possible answers.

In the meantime, let me assure you again: We hear you, loud and clear! Based on your comment letters, we will not move forward with a final corporate rule until after the plan for legacy assets is announced. And while the legacy assets plan will ensure that corporates begin with clean balance sheets, the final rule will ensure that corporates maintain those clean balance sheets.

(pause)

Looking ahead: There will be difficult choices – both for natural-person credit unions and for NCUA – about the future of corporates.

Let me underscore this priority: NCUA's overriding objective is to create a solid framework for safety and soundness. That is the surest way to protect the 90 million credit union members.

Ultimately, the future of the corporate system will be determined by all of you – the leaders of natural person credit unions.

You will soon be facing the choice of either recapitalizing a corporate or finding other ways to obtain the same type of services that corporates have provided. We recognize that after suffering losses on such a scale, it may be difficult for some credit union boards to make the decision to recapitalize a corporate.

All I can do is reassure you: After we dispose of the legacy assets and approve the final rule, corporates will be much better positioned to protect your hard-earned capital.

We recognize that the search for alternative providers would pose hard choices, especially for smaller credit unions.

As you are confronting those difficult choices, NCUA is ready to work with you as a constructive partner.

(pause)

After hearing about the severity of the recent crisis – and after the past few years' worth of gloom-and-doom headlines about the American economy – you are probably wondering: How on earth does she reconcile all those negatives with her belief that credit unions are facing positive prospects ahead?

The reason is simple. Along with most economists, I believe that we have already endured the worst of the economic downturn. There are still some rough times to come. But we have survived the worst of the ordeal. And we have taken strong measures to make sure that credit unions, and the system that frames them, will remain sound.

Now that the system is ready to bounce back, your industry can begin to chart a bold and confident course.

Building on your record of service and success, you are positioned to broaden your appeal to millions of potential new members. The energy and spirit of innovation in the credit union community – especially the strong industry here in Texas – give me confidence that the industry does have a bright future.

After the global crisis tarnished the reputation of every other part of the financial-services sector, Americans' confidence in credit unions continues to grow. That is a tangible measure of the faith that American families continue to place in credit unions. More and more consumers recognize that strong, transparent, well-run credit unions offer them access to some of the highest-quality, lowest-cost options in the world of financial services. We can all be proud of the pivotal role that credit unions play in meeting the needs of savers and borrowers in your local communities.

In a spirit of partnership – drawing on the faith that millions of Americans place in their credit unions – I am looking forward to working closely with you in the years ahead . . . to help you make the most of the opportunities that your industry enjoys, and to help you provide the benefits that America's consumers deserve.

Thank you very much.